Playing Your Cards Right

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by Karen Bankston

Data analytics sharpens focus of credit card marketing.

The “card sharks” get together every Friday in Lompoc, Calif., but not around the poker table. Instead, professionals from across departments at CoastHills Credit Union—card services, marketing, finance, lending, branch operations, and collections—meet to sift through the data that measures credit card portfolio growth and financial performance.

Growing its credit card business has been a primary goal at CoastHills CU over the past five years, “but we want to be sure it’s quality growth—that extending credit limits doesn’t increase collections beyond the targets we’ve set, for example,” says CUES member Scott Coe, SVP/chief marketing officer for the $950 million credit union serving 61,000 members.

The weekly card shark discussions are far-reaching, as is the role of marketing in building the portfolio. While some may think of marketing as focused on advertising campaigns, “our department works on positioning our credit cards, helping to develop program features, and managing internal incentives for product promotions,” Coe says. As part of its recent quarterly incentives, CoastHills CU sponsored a drawing for trips to Las Vegas and Disneyland; front-line staff earned one entry to the drawing for every credit card account they opened.

When the credit union launched efforts to revitalize its credit card portfolio, “all the stars were lined up,” as Coe puts it: The economy was on the upswing, members were receptive to credit card offers, and CoastHills CU had a new card manager open to novel ideas. Since 2011, the credit union has added more than 10,600 new card accounts (up 109 percent) and grown its balances outstanding by 167 percent to $35.3 million. Total annual revenue from credit cards has increased to more than $4 million.

After years of big gains, growth has slowed a bit, he acknowledges. “People are paying down their balances, which is financially savvy but a marketing challenge for us. So we’ve been studying the trends and doing more research on which offers are more likely to appeal to transactors and revolvers.”

Marketing by the Numbers

Like CoastHills CU, many CUs are increasingly refining their credit card marketing with data analytics. Eric Schurr, chief strategy officer with CUES Supplier member TMG Financial Services, Des Moines, Iowa, describes three levels of business intelligence to optimize credit card marketing and management:

A macro approach uses topline data on aggregate balances, transaction volume, and interest and fee revenue to provide “an overall picture of portfolio health.” The average spend per active card is a useful measure of cardholder engagement, and rank-ordering accounts by profitability and engagement can set the stage for segmenting the cardholder base.

Rewards data provides a window on card usage and member preferences, which can aid in more effectively structuring marketing rewards. It also facilitates liability management, as the rewards program is “one of the largest expenses in running a card portfolio,” Schurr notes. “As rewards accrue, they become an ever-growing liability.”

Data analysis examines members’ shopping behaviors and identifies opportunities to increase card usage.

As just one example of these opportunities, Schurr points to the ubiquity of Amazon. Members who pay $99 a year to become Amazon Prime customers tend to make the online retailer their first stop for shopping, so the challenge for credit unions is to position their card as the default payment choice there. To do so, they might borrow an idea from national issuers offering bonus rewards for Amazon purchases.

“Consumers have two immediate decisions when they go shopping: Where am I going to purchase? How am I going to pay?” he notes. “When consumers are asked about what they want in payments, fast, convenient, and secure top the list. Companies like Amazon and Starbucks are leading the way in those areas.”

To insert themselves into those retailer-consumer relationships, credit unions can and should be looking for ways to analyze and apply transaction-level data alongside credit bureau data for risk management, Schurr recommends. That level of business analytics requires either an in-house data specialist or reliance on the data tools supplied by card processors and other technology partners.

“Either way,” he notes, “when you think about the purpose of data analytics, it’s primarily to gain an understanding of what members value so you can make the most of your marketing investment.”

Credit unions may make the biggest impact by directing their business intelligence efforts toward identifying and remediating their biggest pain points, which might involve stalled-out payments, account growth, or product profitability.

A good place to start credit card data analysis is seeking broad opportunities at the portfolio level, suggests Barney Moore, director/portfolio consulting services for CUES Supplier member CSCU, Tampa, Fla.

Total balances, percentage of accounts active and carrying a balance, average usage, and dollars spent per account provide helpful benchmarks for peer, industry, and historical comparisons, which “may identify some areas where you could strive for improvement,” Moore says.

Prime segments to drive those improvements may be found by identifying accounts with common characteristics, such as balance levels, volume and size of transactions, merchant categories, and frequency of card use. Card brands and processors, core providers, and other technology partners provide a variety of tools to dig for that data, typically at a cost.

“The more sophisticated the tool, the higher the cost,” Moore notes. “And then there’s the challenge of becoming proficient with those systems—to have the capacity and capability to pull the data and analyze it in a way that you can really make use of it. Many credit unions don't have the staff or resources to develop those capabilities in house, so they may rely on their processing partners to do that."

One common example of this type of segmentation is promoting loyalty or rewards programs on inactive or low-usage accounts to incent members to use their cards more frequently. Another is offering credit line increases to qualifying members once their balances exceed 30 to 35 percent of their limits. Here is an article that talks more about this.

"That can be a powerful lever to drive additional growth in the portfolio," Moore says.

A broader option is offering seasonal bonus promotions for charges in certain merchant categories, with the aim of increasing interchange revenue—such as travel and entertainment spending in the summer, home improvement purchases in the spring, and holiday shopping—and gaining more of members' "everyday spend" by offering double rewards on gas and groceries, for example.

Bang for the Buck

Deep dives into credit card transaction data might yield additional marketing opportunities. Credit unions could direct personal loan offers to members who've recently used their cards for furniture, computers, or travel expenses—or offer auto loans or HELOCs to members who've been spending money on car repairs or home improvements.

The problem is that these options require a lot of work for likely little return, says Tony Rizzo, general manager of CUES Supplier member Marquis, Plano, Texas.

"You'd have to write very specific business rules identifying transactions and translate that into meaningful action—typically on kind of a one-off relationship where you're saying, 'These 50 people get this offer,' and 'These 100 get that,'" Rizzo notes. "It'll never be thousands, just a handful at a time for most credit unions, and in many cases you may just be moving money around, not bringing in new loans. That's a challenge."

That may be why across Marquis's customer base of several hundred organizations, few are studying credit card transactions for marketing opportunities, he says. "And we have no clients giving us detailed, granular transaction data—mainly, I think, because there are a lot bigger fish to fry."

Credit unions could likely find stronger leads more cost-effectively by mining their bill-pay systems or ACH transactions to other financial institutions for possible refi opportunities. "That's the Rosetta Stone of financial behavioral data. If I had to pick one source of data to mine, this would be it," Rizzo says.

Big Picture Views

Among the key information to be gleaned from credit card statements is whether members are transactors or revolvers, which will guide their interest in offers based on rates vs. rewards, says Kristen St. Jean, analytics lead/data acquisition & enablement with CUES Supplier member PSCU, St. Petersburg, Fla.

Some credit unions have also begun to drill down into transaction data and categories, with the aim of partnering with local merchants to develop rewards and special offers with members' favorite retailers, restaurants and other businesses.

In addition, credit and debit card data may inform efforts to improve member service and bolster business development, suggests Jeff Rosenbeck, PSCU's analytics lead/product strategy. For example, geo-coding card transactions can help identify where members are using credit union and other institutions' ATMs to identify the best locations for new ATMs. And for CUs serving select employee groups, members' card transactions may suggest "natural affinities" with large employers as potential new SEGs.

On a larger scale, mining credit card data is just one aspect of developing a comprehensive view of members' financial needs and preferences. "The goal that every financial institution needs to be moving toward is getting to that single view of members and their households," Rosenbeck says.

"A lot of credit unions continue to rely on productivity tools like Microsoft Excel and Access when they would really benefit from a centralized depository for all their data. At this point, credit unions have a lot of aspirations, but not a lot of well-funded business intelligence development."

Marketing is typically viewed as the foremost user of data warehousing to enhance product usage and member engagement, "but the reality is that a centralized data repository would facilitate a lot of operational and regulatory analysis that becomes more and more important, especially as credit unions get larger," he notes.

Optimizing the potential of all the card data at their disposal might be the impetus that drives some credit unions to the next level of business intelligence, St. Jean suggests. "Excel is not the best choice for analyzing hundreds of thousands, even millions, of card transactions. On their own, credit unions may not have the time and resources to get all that transactional data together and put it to best use. So, we're taking that on, in developing BI tools to leverage those efforts across all our member credit unions."

Nimble, Creative, Responsive

$402 million, 42,000-member Heritage Family Federal Credit Union, Rutland, Vt., relies on data analytics to increase per-card spends in its in-house credit card program by targeting accounts for credit line increases and developing and analyzing the response to back-to-school, holiday shopping, and other marketing campaigns. And in assessing rewards promotions, the credit union now has comparative data about the relative return on emphasizing triple points for purchases vs. cash-back rewards.

The CU works with IQR Consulting, Santa Rosa, Calif. "The best thing we've done with the help of IQR is manage credit line increases to encourage per card spend," says CUES member Carrie L. Allen, CUDE, SVP/marketing and business development.

"We are actually implementing our third CLI in the last five years. We could never have managed that ourselves before and would hold members at their existing limit until they requested an increase. Working with IQR lets us get down to the individual card level and make decisions about offers because they can tell who is a spender, who is inactive, and what are our members spending on (not surprisingly gas and groceries), and if we encourage them to spend at those types of retailers by offering double or triple rewards, then they'll pull our card out more often."

The CU has also combined information from its credit card portfolio with core system data to develop profiles on deposit and loan trends among transactors and revolvers and lately began applying business intelligence to an acquisition campaign to move the dial on its rate of members with a Heritage Family FCU credit card, which currently stands at 12 percent.

The credit union aims to position its credit cards as an affordable alternative to the offerings of banking and retail giants from Chase to Amazon. Data analytics “help us to be more mindful about what offers we make—and more responsive in real time,” says Allen. Weekly, even daily, data on how members are responding to credit card offers “helps us to shape our products, so we can be nimble, creative, and innovative and keep our marketing spend manageable. We understand how valuable this data is in shaping our strategies.

“Gone are the days when you can take a shotgun approach with generic messaging in mass media,” she adds. “You need to be thinking about what matters in members’ life stages so you can get specific in your messaging and get the timing right. And tracking results is even more important. Now when the CEO or CFO asks for our marketing ROI, we have the data to answer questions about how we are maximizing our spend.”

In applying data analytics to credit card marketing, Heritage Family FCU relies on the Marquis CRM system and IQR Consulting, a strategic partner of its credit card processor, TMG Financial Services. That connection helps overcome regulatory restrictions on data sharing when working with third-party vendors, Allen notes.

“It can be challenging if you don’t have an in-house strategist to figure out how to provide vendors with data while safeguarding members’ private information,” she says.

Trend Vetters

CoastHills CU relies on its card processor, CSCU, as one data source on wide-ranging market trends, from strategies that seem to be paying off for big card issuers to the fact that consumers tend to maintain smaller credit card balances during presidential election years, especially when the race is contentious and dominated by uncertainty.

“The one exception to the rule was in 2012, when people seemed to think the outcome was a foregone conclusion,” says Dean Knudtson, a senior portfolio consultant with CSCU. “But this time around, there are a lot of nervous people, and credit card balances are shrinking even if spend volume is up.”

One group where CoastHills CU has decided to focus its card marketing efforts is on members with high balances on credit cards issued by other providers. Based on survey results about why those members have chosen not to maintain balances on their CoastHills CU cards, the credit union has introduced cash-back rewards with the goal of luring some of those balances to its portfolio.

“We feel like there’s a huge opportunity here,” Coe says. “We’re talking to our own members, so they already know us. Some of them even told us, ‘When you get cash rewards, I’m all ears.’

“There’s so much data out there to guide our efforts, not just to open new accounts but to make sure those cards are activated and used,” he adds. “We’d be leaving a huge arrow in our quiver if we didn’t take advantage of all the data that’s out there.”

Credit unions willing to invest in developing their credit card data mining capabilities may see increasing returns on that investment, Moore suggests. “As time goes on, it will become more important to get at this information efficiently to use it in marketing to increase usage and grow accounts. Members’ expectations as Gen Y has come of age are much higher in terms of offers that reflect their specific needs and preferences and that take advantage of mobile access, such as proximity offers.”

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